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Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

Consumer Confidence Blues

With a convincing pickup in business activity awaiting a greater willingness on the part of consumers to open their wallets and purchase such big-ticket items as houses and automobiles, the latest drop in consumer confidence would appear to be a clear setback for the economy. For although home prices have fallen virtually everywhere and mortgage and auto financing costs have dropped decidedly, consumer caution still impedes robust recoveries in these two industries.

According to the Conference Board, consumer confidence plunged to a 17-year low in February. The last time confidence was this low, the country was mired in a deep recession, joblessness was rising rapidly and inflation was quickening to a nearly double-digit pace. In addition, there were frustratingly long lines at the gasoline pumps and the country was in the throes of the Cold War. Now, however, the Cold War is history, energy supplies are plentiful, the rate of consumer price inflation is less than three percent and unemployment is almost four percentage points *lower* than at the end of the 1981-82 recession. Yet, consumer attitudes plumb almost unprecedented depths.

The principal reason for this is the glum employment picture. Mounting layoffs occurring throughout the nation at many of its premier corporations are a major depressant on people's confidence. Fearing for one's job is, of course, a valid concern, but the perception appears to be that most of the job losses will be permanent, not temporary as during past business downturns. However, little attention has been given to the fact that many of those who have been laid off are finding alternative jobs in different fields, some working part-time until a better position becomes available and others becoming self-employed. Civilian employment, as measured by the Bureau of Labor Statistics' household survey, which includes persons who are either self-employed or work part-time, has climbed by nearly 315,000 since July 1991. This is in contrast with the payroll employment figures which have risen by only 38,000 jobs during the same period.

Yet the casualties of faltering confidence continue to mount and the housing industry is one of them. Fixed-rate mortgages were as low as 8¼ percent at the beginning of this year, levels not seen since 1977, and adjustable rate mortgages were even lower. Together with fading home prices, this combination has made housing the most affordable it's been in 20 years! There was some impact, to be sure, but not as much as had been expected. For although housing starts rose 5½ percent in January, the fourth consecutive monthly gain, and construction of new homes stood 38 percent above its abysmal January 1991 low point, homebuilding is still well below the level of recent years. For 1991 as a whole, housing starts were barely above the one million unit mark, the lowest annual level in the postwar era and almost 33 percent below the level of construction as recently as three years ago.

Housing Gets Off The Floor

Sales of new and existing homes have also perked up over the past few months, although a forest of "for sale" signs still blankets many neighborhoods. New single-family homes sold rose 13 percent in January month-over-month, to their highest level in two years and are currently 51 percent higher than their January 1991 low point. Purchases of existing single-family houses have grown for three straight months and currently stand 15 percent higher than at the beginning of 1991. However, the housing market gridlock has yet to be broken in many areas, and the trade-up market remains moribund in such key geographic areas as the Northeast and Pacific regions.

Ominously, the staying power of the nascent rebound in the housing market is problematic. Mortgage rates have since backed up to almost nine percent, reflecting the bond markets' negative response to Washington's growing borrowing needs and fears of a pickup in inflation. This has pushed 30-year Treasury bond yields from a mid-January low of around 7.40 percent to nearly eight percent currently.

One positive factor is a reduction in the number of unsold homes. Inventories have fallen from a more than nine-month supply to about 5¾ months in January. The current stock of unsold houses is only slightly higher than in the period immediately following the 1981-82 recession. Thus, while homebuilding should not be a drag on the economy this year, higher mortgage rates and low consumer confidence could well prevent housing activity from experiencing a substantial pickup in 1992.

Economics Department 17/270

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Autos Stuck In Low Gear

The outlook for auto sales is even murkier. For starters, descending interest rates have a far more muted impact on auto affordability than in the case of housing. Each one percentage point decline on a four-year, $10,000 auto loan, for example, only trims the monthly payment by a paltry $5. More important is the consumer's perception of the value of the car to be purchased. Although repeated restructurings, retoolings and design and engineering improvements have boosted the quality of Detroit's products, it has apparently come too late for a significant portion of the American public which seems wedded to imported automobiles. Nor have these quality improvements come cheap. Since 1980, new domestic car prices have risen by an average of ten percent annually, a pace more than 50 percent quicker than household income growth. This disparity has clearly pinched the pocketbook: it currently takes almost 24 weeks of the average family's income to buy a new domestic car whereas it took less than 18 weeks of income to purchase a new car in 1980.

With prices moving in the opposite direction of attitudes, it is hardly surprising that auto sales have languished in the six-million unit range.

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/19/92)	158,912	- 2,326	- 49,924
New York City (2/26/92)	28,570	+ 784	- 4,902
Commercial Paper (2/26/92)	535,900	+ 9,434	- 33,302

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/19/92)	289,442	+ 1,405	- 30,713
New York City (2/26/92)	50,401	- 256	- 7,667

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/19/92)	1,018,146	- 550	- 46,106
New York City (2/26/92)	162,053	- 1,857	- 16,754

Financial Markets

	Friday 3/6/92	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	4.14%	+ .14	- 1.96
180-Day Bills†	4.40	+ .19	- 1.92
Longest Bills†	4.63	+ .32	- 1.75
Recent Issues:			
4¼s 1/31/94	5.58	+ .32	
6¼s 1/31/97	6.83	+ .24	
7⅛s 11/15/01	7.47	+ .19	
8s 11/15/21	7.86	+ .10	
Municipals:			
Bond Buyer—20 Bond Index* (3/5/92)	6.71%	- .03	- .35
Blue List Total ($ Million)	$1,698	+ $ 330	+$ 110
30-Day Visible Supply ($ Million)	$7,249	+ $1,431	+$4,283
Total	$8,947	+ $1,761	+$4,393
Corporates:			
Moody's Aa Composite (3/5/92)	8.76%	- .02	- .49
30-Day Visible Supply ($ Million)	$ 540	- $ 50	+$ 275
Stocks:			
Dow-Jones Averages:			
Industrials	3,221.60	- 46.07	+266.39
Transportation	1,413.12	- 15.13	+258.48
Utilities	202.55	- 3.07	- 7.90
65 Stocks	1,163.93	- 15.51	+121.13
N.Y.S.E. Composite Index	225.79	- 4.42	+ 18.84
N.Y.S.E. Avg. Daily Vol. for Week (000's)	150,044	- 696	- 31,317

*34% Taxable equivalent 10.17%

† Bond equivalent

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/6/92	Week Ago
Overnight	4.19%	4.06%
1 month	4.25	4.25
3 month	4.44	4.25
6 month	4.56	4.25
1 year	5.00	4.75

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/6/92)	Currency Per U.S. $	Week Ago
Belgium	34.20	33.67
Canada	1.1854	1.1819
France	5.6536	5.5654
Germany	1.6640	1.6370
Italy	1249.03	1228.47
Japan	131.55	129.20
Mexico	3058.00	3061.01
Netherlands	1.8720	1.8416
South Korea	753.82	753.53
Switzerland	1.5140	1.4843
Taiwan	25.01	24.81
U.K.*	1.7218	1.7604

*U.S. $ per U.K. pound

CHEM TRADE-WEIGHTED DOLLAR (3/6/92) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.8%	-11.5%

For 1991 as a whole, only 6.1 million new domestic cars were sold, the lowest level since 1982, and almost 20 percent lower than the 7.5 million cars sold on average in the 1985-90 period. Sales so far this year, running at a six-million unit annual rate, remain in low gear.

Although auto sales are unlikely to upshift anytime soon, there are two factors that could produce a pleasant surprise. For one thing, the average age of the nation's auto fleet is now almost eight years—the highest level in four decades. What is more, the number of passenger cars that are 10 years or older account for more than 30 percent of the total. This should produce a substantial replacement demand once confidence improves. For another, auto inventories have been kept under control, remaining in general alignment with the sluggish sales pace. The stock of new cars was at an 82 day supply at the end of January, ten percent below the January 1991 level, although sales today are no lower than they were a year ago. Even a slight upturn in consumer car buying should provide a boost to production. And, as increased auto production feeds through the rest of the economy many other industries will benefit—boosting sales and profits and, hopefully, staunching the hemorrhage of factory jobs.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/4/92	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	272.171	+ 1.223	+24.533
Loans to Depository Inst	.559	- .008	- .425
Float	.569	- .028	- .019
Total Reserve Bank Credit	304.545	+ .532	+17.962
Treasury Deposits with Federal Reserve Banks	5.563	+ .424	- 3.629
Currency in Circulation	311.752	- .294	+16.205
Gov'ts held for Foreign Acct by F.R. Banks (End-of-Week)	27.533	+ 3.130	+17.526
Member Bank Reserves:	**3/4/92**		
Total Reserves Held	59.009	- .535	+ 7.149
Excess (Deficiency)	.184	- .212	- .263
Net Free Reserves	.808	- .205	+ .053

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
M1 (2/24/92)	933.8	+ 17.5	+ 11.0
M2 (2/24/92)	3,480.3	+ 5.7	+ 3.6
M3 (2/24/92)	4,195.4	+ 3.8	+ 1.0
Domestic Nonfinancial Debt (3rd Q'91)	11,136.8	+ 5.5	+ 4.7

† Seasonally adjusted

* Seasonally adjusted annual rate
‡ Four-week moving average

New York Money Market

Offering Rates 3/6/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	4.07%	4.18%	4.46%
* Federal Agencies	4.15	4.30	4.70
* Municipal Notes–High Grade (34% Taxable Equivalent)	4.62	4.55	4.55
Negotiable Time CDs			
Chemical	Rates By Arrangement		
* Secondary Market–Prime	4.35	4.45	4.90

‡ Finance Company Paper–Prime

5- 14 days	4.10%
15- 29 days	4.13
30- 59 days	4.30
60- 89 days	4.33
90-179 days	4.35
180-239 days	4.35
240-270 days	4.35

‡* Bankers' Acceptances

Apr.	4.17%
May	4.17
Jun.	4.17
Jul.	4.22
Aug.	4.25
Sep.	4.25

‡ Industrial Paper–Prime

30- 89 days	4.30%
90-120 days	4.35

†Federal Funds Effective Rate 3.63%

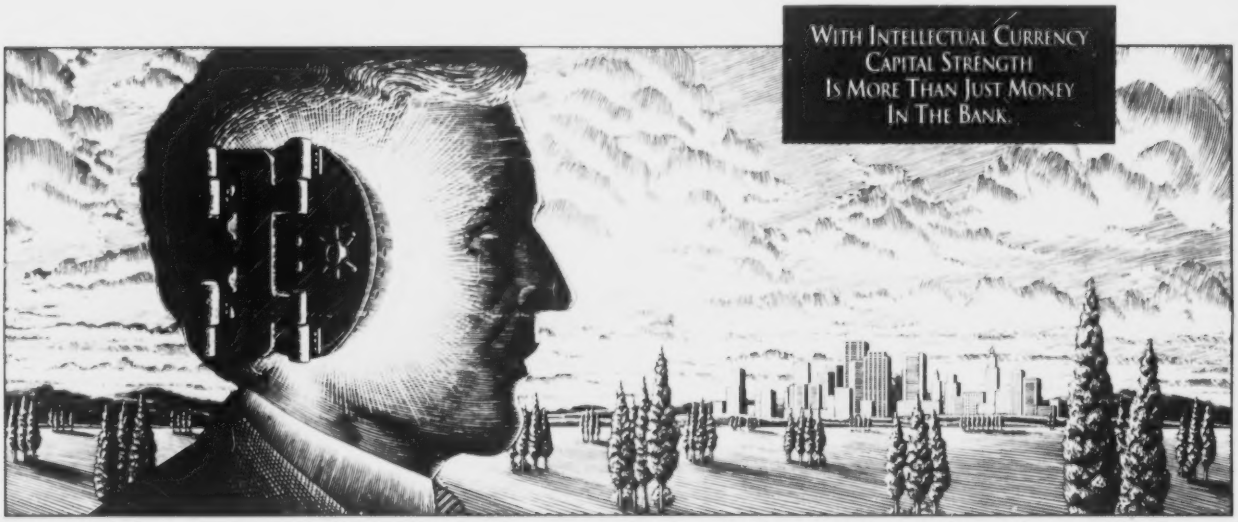
‡ Discount basis *Subject to availability † Estimated

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	4th Q'91	$ 5,737	$ 5,709	$ 5,558
Gross Domestic Product (1987 Dollars)*	4th Q'91	$ 4,866	$ 4,863	$ 4,855
Percent Change, Annual Rate	4th Q'91	0.3	1.8	- 3.9
Change in Consumer Prices*	Jan '92	1.2%	2.4%	4.8%
Change in CHEM Cost of Living Index*	Jan '92	1.2%	1.2%	8.4%
Change in Producer Prices*	Jan '92	1.6%	- 1.2%	- 2.4%
Civilian Employment (Thousands of Persons) †	Feb '92	117,044	117,117	116,867
Unemployment as % of Civilian Labor Force †	Feb '92	7.4%	7.1%	6.5%
Personal Income*	Jan '92	$ 4,928	$ 4,931r	$ 4,762
Leading Indicators Composite Index (1367=100) †	Jan '92	140.5	145.2r	138.7
Industrial Production Index (1977=100) †	Jan '92	109.7	107.6	106.6
Net Change in Consumer Installment Credit †	Dec '91	$ 4.32	- $ 0.17	- $ 1.31
U.S. Merchandise Trade Balance †	Dec '91	$ 7.094	- $ 4.17	- $ 6.32
Plant and Equipment Expenditures*	4th Q'92	$ 532.0(a)	$ 532.0(a)	$ 535.5
Private Housing Starts (Thousands of Units)*	Jan '92	1,085	1,106	847
New Construction Expenditures*	Jan '92	$ 404.1	$ 398.9r	$ 406.5
Total Business Inventories †	Dec '91	$ 817.4	$ 813.9	$ 825.4
Total Business Sales †	Dec '91	$ 542.8	$ 542.8	$ 535.1

*Seasonally adjusted annual rate † Seasonally adjusted r-Revised a-Anticipated



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